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Market Orientation, Digital Marketing, and Product Innovation Strengthen Competitive Advantage of Cake and Bakery SMEs

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Abstract

The cake and bakery SME sector in Yogyakarta has experienced increasing competition due to shifting consumer preferences and the rapid adoption of digital platforms. In this context, understanding factors that enhance competitive advantage is crucial for business sustainability. This research seeks to analyze the impact of market orientation, digital marketing, and product innovation on the competitive advantage of cake and bakery small and medium-sized enterprises in the Special Region of Yogyakarta. A quantitative research approach was employed, involving 100 SME managers selected through purposive sampling. Primary data were collected using questionnaires distributed directly to respondents. Data analysis was conducted using multiple linear regression. The results indicate that market orientation, digital marketing, and product innovation each have a positive and significant impact on the competitive advantage of cake and bakery SMEs. These findings suggest that integrating market-oriented strategies, leveraging digital marketing, and continuously innovating products can strengthen SMEs' competitiveness. The study provides practical recommendations for SME owners to enhance business performance and achieve sustainable competitive advantage in a dynamic market environment.

Keywords

Competitive Advantage, Digital Marketing, Market Orientation, Product Innovation, SMEs.

1. Introduction

SMEs play a strategic role in Indonesia's economy by creating employment, strengthening local products, and maintaining national economic stability. In the Special Region of Yogyakarta, the number of SMEs has continued to increase, from 324,745 units in 2022 to 327,774 units in 2024 (Pemda DIY, 2024), intensifying business competition, including in the cake and bakery sector. This situation requires business actors to adapt to changing consumer preferences, demands for innovation, and pressures from both local and imported products to survive and grow.

In this competitive context, competitive advantage becomes a key factor for SME sustainability. Competitive advantage is understood as a firm's strategic position that is superior to competitors through the creation of unique value for customers (Nuvriasari et al., 2024; Tuharea et al., 2025). Implementing competitive advantage strategies has been shown to enhance customer numbers, business performance, firm image, continuous innovation, and financial profitability (Yuliana & Filatrovi, 2019; Khuroidah & Maunah, 2022; Veronica et al., 2025). Several studies have identified that SMEs' competitive advantage is influenced by market orientation, digital marketing, and product innovation (Rosli & Sidek, 2013; Nuvriasari, 2024).

Market orientation is a business approach focused on understanding customers, competitors, and coordinating across organizational functions (Putra & Nuvriasari, 2024). SMEs adopting market orientation tend to create value aligned with customer needs, enhance marketing creativity, and improve business performance (Herman et al., 2018; Nuvriasari et al., 2024). Several studies indicate a positive effect of market orientation on competitive advantage, although other findings report inconsistencies due to product misalignment with consumer preferences and inadequate responses to competitor strategies (Arraniri, 2019; Mohsin & Khorsheed, 2025).

In addition to market orientation, digital marketing has become a crucial strategy for enhancing SME competitiveness in the digital era. Digital marketing utilizes internet technology and digital media to achieve marketing objectives more effectively and efficiently (Ellis-Chadwick, 2019). Its implementation has been shown to increase brand promotion, expand market reach, reduce marketing costs, and strengthen customer positioning and loyalty (Davidescu et al., 2020; Asikin et al., 2024). However, some studies reveal that digital marketing does not significantly impact competitive advantage when its implementation is not yet optimal (Setiawati & Nuvriasari, 2025).

Changes in consumer needs and preferences also encourage SMEs to engage in product innovation as a differentiation strategy. Product innovation is defined as efforts to create or enhance product value to meet market desires (Syapsan, 2019). Various studies by Semenova and Semenov (2023) have found that product innovation through line development, diversification, and process improvement positively affects SMEs' competitive advantage, including in the cake and bakery sector. Nevertheless, other findings indicate that low levels of innovation or failure to meet market expectations result in product innovation having an insignificant impact on competitive advantage (Sarkar et al., 2024).

This study was carried out on cake and bakery SMEs in the Special Region of Yogyakarta, focusing on the effects of market orientation, digital marketing, and product innovation on competitive advantage, prompted by intense competition and existing research gaps. This research is expected to provide empirical contributions to SME strategy development, strengthen competitiveness in local and national markets, and serve as a reference for business actors and government in SME development in the digital economy era.

2. Literature Review

2.1. The Effect of Market Orientation on Competitive Advantage

Market orientation refers to a firm's capability to identify and capitalize on market opportunities by focusing on consumer needs and preferences, which drives innovation, risk-taking, and proactive behavior in product and business process development for SMEs (Yaqub et al., 2025; Erliyani et al., 2025). SMEs with a strong market orientation exhibit heightened awareness of the importance of customer value, enabling them to respond adaptively to market dynamics, develop products or services aligned with customer needs, and create differentiation that is difficult for competitors to imitate. Such a strategic orientation fosters innovation, enhances operational efficiency, and strengthens overall business performance, thereby reinforcing competitive advantage.

Empirical evidence shows that market-oriented SMEs are more capable of anticipating changes in consumer preferences and competitive dynamics, enabling them to adopt strategies that better align with evolving market demands and customer needs (Lorensa & Hidayah, 2022). Firms that actively gather customer insights and analyze competitor behavior can refine their value offerings, develop relevant products or services, and improve customer satisfaction. Continuous market orientation also helps SMEs build stronger relationships with customers and differentiate themselves in competitive environments. This strategic focus enhances their sustained competitive advantage and overall business performance in dynamic markets (Putra & Nuvriasari, 2024).

H1: Market orientation has a positive effect on the competitive advantage.

2.2. The Effect of Digital Marketing on Competitive Advantage

Digital marketing is a strategic approach through which firms understand and respond to consumer needs and preferences by leveraging digital technologies and platforms, thereby fostering continuous innovation in creating competitive value. It emphasizes customer understanding, competitor analysis, and internal coordination within a digitally driven business strategy (Paimash et al., 2025). Through digital platforms, SMEs can implement more effective and efficient marketing strategies, respond rapidly to shifts in consumer behavior, expand market access, reduce promotional costs, and develop products that enhance competitive advantage and overall business performance (Rolando & Mulyono, 2025).

The integration of digital marketing into SME operations enables firms to strengthen customer engagement, build brand loyalty, and achieve sustainable growth in a highly dynamic market environment (Rahayu, 2024). By leveraging a variety of digital channels such as social media, email, and search platforms, businesses can reach broader audiences more efficiently and at a lower cost than traditional methods. The flexibility and scalability of digital marketing tools also facilitate the monitoring of market trends and competitor activities, allowing SMEs to optimize resources and maximize market impact. As a result, digital marketing enhances strategic decision-making, improves customer relationships, and supports long-term competitive performance (Asikin et al., 2024).

H2: Digital marketing has a positive effect on the competitive advantage.

2.3. The Effect of Product Innovation on Competitive Advantage

Product innovation refers to the process of developing and introducing new products or enhancing existing ones that provide added value to customers and help firms stand out from competitors (Herman et al., 2018; Sudirjo, 2023). In this

context, effective product innovation requires sufficient development facilities and resources, which positively influence the success and impact of innovation outcomes within the firm. For SMEs, product innovation is critical for adapting to rapidly changing market conditions, responding to customer needs, and strengthening competitive positioning. By consistently innovating, firms can improve product quality, satisfy evolving consumer preferences, and secure long-term business success (Truong et al., 2024; Amajuoyi et al., 2024).

The impact of product innovation on competitive advantage is further amplified through external collaboration, such as partnerships with suppliers and the use of digital platforms, which accelerate product development cycles, improve operational efficiency, and help firms better align with changing market conditions (Li, 2023; Purba & Nuvriasari, 2024; Tsakalerou et al., 2025). By engaging in collaborative innovation activities, SMEs can access diverse expertise, reduce costs, and respond more quickly to consumer demands. Beyond creating unique differentiation through flavor, packaging, and service improvements, sustained product innovation fosters customer loyalty and strengthens long-term competitive advantage, particularly in the face of increasing global competition (Nazara, 2025).

H3: Product innovation has a positive effect on the competitive advantage.

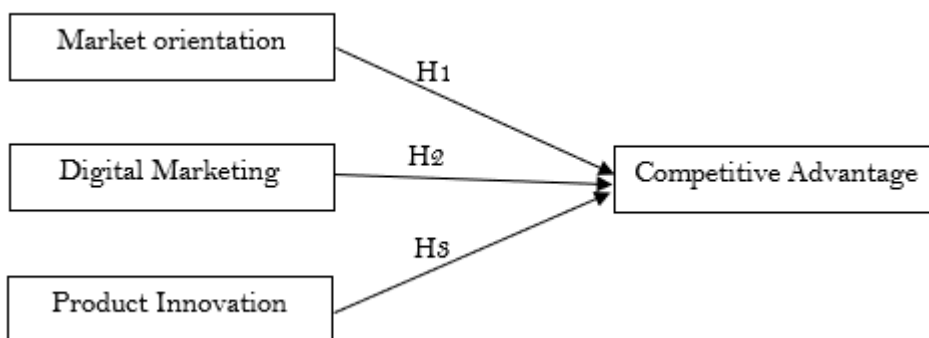


Figure 1. Conceptual Framework

Figure 1 illustrates that there are three independent variables, namely market orientation, digital marketing, and product innovation, each of which is assumed to influence the dependent variable, namely competitive advantage. Each relationship between variables is labeled a hypothesis: H1 indicates that market orientation is assumed to have an influence on competitive advantage, H2 states that the implementation of digital marketing is assumed to have an influence on competitive advantage, and H3 indicates that product innovation is assumed to have an impact on the formation of competitive advantage. This figure illustrates the focus of research on how these three strategic factors can improve companies' or MSMEs' ability to compete in the market.

3. Methods

This research utilized an explanatory quantitative approach to investigate how market orientation, digital marketing, and product innovation influence the competitive advantage of cake and bakery SMEs in Yogyakarta's Special Region. The explanatory approach was chosen to determine the causal relationships between the independent variables (market orientation, digital marketing, and product innovation) and the dependent variable (competitive advantage), providing empirical evidence on how these factors influence SME performance in a highly competitive market.

Primary data were collected using structured questionnaires with a five-point Likert scale, which were administered directly to owners or managers responsible for SMEs that have been operational for a minimum of three years. The questionnaire items were designed to capture multiple dimensions of each variable. The indicators for market orientation included commitment to customer satisfaction, after-sales service, responding to competitor actions and strategies, monitoring competitor activities, coordination across work units to produce quality products or services, and sharing market development information across organizational units. Digital marketing indicators consisted of attractiveness, interaction, building customer trust, content quality, market reach, ease of use, and cost efficiency. Product innovation indicators encompass raw material innovation, product performance improvement, design and packaging innovation, new product development, service enhancement, and service expansion. Competitive advantage was measured through cost advantage, quality advantage, differentiation advantage, service advantage, reputation advantage, and innovation advantage.

The population of this study consisted of cake and bakery SMEs in the Special Region of Yogyakarta. Given that the population is effectively infinite, the sample size was determined using the Lemeshow formula, resulting in 100 respondents selected through purposive sampling. This sampling technique was applied to ensure that the selected participants met specific criteria, including business longevity, active operations, and managerial responsibility.

Data analysis was performed using both descriptive and inferential statistical techniques. Descriptive statistics were used to summarize respondents' characteristics and to describe the distribution of the research variables. Inferential analysis was conducted through multiple linear regression to test the hypothesized relationships, with hypothesis testing performed using t-tests for individual coefficients and the coefficient of determination (R^2) to assess the explanatory power of the model. This combination of data collection, measurement, and statistical analysis ensures a robust evaluation of how market orientation, digital marketing, and product innovation contribute to the competitive advantage of SMEs in the cake and bakery sector.

4. Results

Before conducting further analysis of the relationships between variables in this study, a validity test was conducted to ensure that all items in the questionnaire were able to measure the concepts they were intended to measure. The validity test was conducted for each research variable, namely market orientation, digital marketing, product innovation, and competitive advantage. This validity test used an item-total correlation approach with the criterion that an item is declared valid if the r-count value is greater than r-table at a significance level of 0.05. The r-table value is obtained based on the number of respondents, thus serving as a reference for interpreting the strength of the relationship between the score of each item and the total score of the variable.

Table 1. Validity Test

Variable	Item	r-count	r-table	significance	Description
Market Orientation	X1.1	0.733	0.196	0.000	Valid
	X1.2	0.472	0.196	0.000	Valid
	X1.3	0.567	0.196	0.000	Valid
	X1.4	0.728	0.196	0.000	Valid
	X1.5	0.640	0.196	0.000	Valid
	X1.6	0.701	0.196	0.000	Valid
Digital Marketing	X2.1	0.914	0.196	0.000	Valid
	X2.2	0.866	0.196	0.000	Valid

Variable	Item	r-count	r-table	significance	Description
	X2.3	0.889	0.196	0.000	Valid
	X2.4	0.912	0.196	0.000	Valid
	X2.5	0.883	0.196	0.000	Valid
	X2.6	0.885	0.196	0.000	Valid
	X2.7	0.873	0.196	0.000	Valid
	Product Innovation	X3.1	0.893	0.196	0.000
X3.2		0.891	0.196	0.000	Valid
X3.3		0.858	0.196	0.000	Valid
X3.4		0.870	0.196	0.000	Valid
X3.5		0.871	0.196	0.000	Valid
X3.6		0.905	0.196	0.000	Valid
Competitive Advantage	Y.1	0.904	0.196	0.000	Valid
	Y.2	0.845	0.196	0.000	Valid
	Y.3	0.883	0.196	0.000	Valid
	Y.4	0.862	0.196	0.000	Valid
	Y.5	0.885	0.196	0.000	Valid
	Y.6	0.899	0.196	0.000	Valid
	Y.7	0.907	0.196	0.000	Valid

Table 1 shows the outcomes of the validity assessment for the variables, market orientation, digital marketing, product innovation, and competitive advantage. Each item was evaluated by comparing its item-total correlation (r-count) with the critical r-value (r-table) at a 0.05 significance level. All items have r-count values exceeding the r-table of 0.196 and are significant at $p < 0.001$, indicating that every item effectively represents its corresponding construct. These results confirm that the questionnaire items are valid for measuring the intended variables in this study.

Table 2. Reliability Test

Variable	Cronbach's Alpha	Critical Value	Description
Market Orientation	0.718	0.60	Reliable
Digital Marketing	0.956	0.60	Reliable
Product Innovation	0.942	0.60	Reliable
Competitive Advantage	0.953	0.60	Reliable

Table 2 presents the results of the reliability test for the study variables, including market orientation, digital marketing, product innovation, and competitive advantage. Reliability was assessed using Cronbach's Alpha, with a critical threshold of 0.60. All variables show Cronbach's Alpha values above the threshold (ranging from 0.718 to 0.956), indicating that the items for each construct are internally consistent and the measurement instruments are reliable for this study.

Table 3. Normality Test

Statistics	Test	Value
N		100
Normal Parameters ^{a,b}	Mean	0.0000000
	Std. Deviation	0.401131778
Most Extreme Differences	Absolute	0.068
	Positive	0.057
	Negative	-0.068
Test Statistic		0.068
Asymp. Sig. (2-tailed)		0.200 ^{c,d}

Table 3 displays the results of the normality test for the dataset (N = 100). The test examines whether the data distribution deviates from normality. The mean is

0.000, and the standard deviation is 4.011. The Kolmogorov-Smirnov test indicates the most extreme difference is 0.068, with positive and negative differences of 0.057 and -0.068, respectively. The test statistic is 0.068, while the asymptotic significance (2-tailed) is 0.200, which exceeds 0.05. This finding implies that the data do not significantly differ from a normal distribution, signifying that the normality assumption is satisfied.

Table 4. Multicollinearity Test Result

Variable	Tolerance	VIF
Market Orientation	0.281	3.556
Digital Marketing	0.549	1.822
Product Innovation	0.347	2.882

Table 4 presents the results of the multicollinearity test for the independent variables: Market Orientation, Digital Marketing, and Product Innovation. Tolerance values range from 0.281 to 0.549, and the corresponding Variance Inflation Factor (VIF) values range from 1.822 to 3.556. Since all VIF values are below the common threshold of 10 and tolerance values are above 0.1, there is no indication of multicollinearity among the independent variables, suggesting that each variable contributes uniquely to the model.

Table 5. Heteroscedasticity Test Result

Variable	Significance (Sig.)
Market Orientation	0.002
Digital Marketing	0.074
Product Innovation	0.345

Table 5 shows the results of the heteroscedasticity test for the independent variables: market orientation, digital marketing, and product innovation. The significance values indicate whether the variance of residuals is constant across observations. Market orientation has a significance of 0.002, which is below 0.05, suggesting the presence of heteroscedasticity. In contrast, digital marketing (0.074) and product innovation (0.345) have significance values above 0.05, indicating that their residuals are not heteroscedastic.

Table 6. Multiple Linear Regression Test Results

Variable	Unst. Coeff. B	Unst. Coeff. Std. Error	Stand. Coeff. Beta	t	Sig.
(Constant)	0.745	0.751		0.992	0.324
Market Orientation	0.528	0.052	0.472	10.160	0.000
Digital Marketing	0.313	0.033	0.323	9.613	0.000
Product Innovation	0.318	0.047	0.289	6.829	0.000

The multiple linear regression equation can be expressed as follows:

$$Y = 0,745 + 0,472X_1 + 0,323X_2 + 0,289X_3 + e$$

Table 6 shows the multiple linear regression equation also indicates that the constant value of 0.745 represents the baseline level of competitive advantage for cake and bakery MSMEs in Yogyakarta when market orientation, digital marketing, and product innovation are all zero. The regression coefficients for market

orientation (0.472), digital marketing (0.323), and product innovation (0.289) are all positive, suggesting that increases in these independent variables will increase competitive advantage, assuming the other variables remain constant. These findings indicate that market orientation has the strongest influence on enhancing the competitive advantage of cake and bakery MSMEs compared to the other variables.

Table 7. t-Test Results (Partial Test)

Model	t-statistic	Sig.	Criteria	Conclusion
X ₁ → Y	10.060	0.000	p < 0.05	H ₁ accepted
X ₂ → Y	9.613	0.000	p < 0.05	H ₂ accepted
X ₃ → Y	6.829	0.000	p < 0.05	H ₃ accepted

Based on Table 7, the t-test results indicate that market orientation has a significant positive effect on the competitive advantage of cake and bakery MSMEs in Yogyakarta. The calculated t-value exceeds the critical value at the 0.000 significance level (p < 0.05), leading to the rejection of Ho1 and the acceptance of Ha1. This finding indicates that improvements in market orientation substantially enhance these enterprises' competitive advantage.

Similarly, both digital marketing and product innovation demonstrate positive and significant effects. Digital marketing yields a t-value greater than the critical t-value, with a significance of 0.000 (p < 0.05), confirming the rejection of Ho2 and acceptance of Ha2. Likewise, product innovation shows a t-value exceeding the critical threshold and a significance level of 0.000 (p < 0.05), leading to the rejection of Ho3 and acceptance of Ha3. These results suggest that improvements in Digital Marketing and Product Innovation significantly enhance the competitive advantage of cake and bakery MSMEs in Yogyakarta.

Table 8. Test Results R²

Statistics	R
R	0.970 ^a
R Square	0.941
Adjusted R Square	0.939
Std. Error of the Estimate	1.405

Table 8 presents the results of the coefficient of determination (R²) for the regression model. The correlation coefficient (R) is 0.970, indicating a very strong relationship between the independent variables and the dependent variable. The R² value stands at 0.941, and the adjusted R² is 0.939, indicating that around 94.1% of the variance in competitive advantage is accounted for by market orientation, digital marketing, and product innovation, with the other 5.9% being affected by additional factors not represented in the model. The estimate's standard error is 1.405, indicating the average gap between the predicted and observed values.

5. Discussion

The test results indicate that market orientation has a positive and significant effect on competitive advantage among cake and bakery MSMEs in the Special Region of Yogyakarta. This finding suggests that the greater an MSME's ability to understand customer needs and desires, monitor competitor strategies, and coordinate across functions, the stronger its competitive advantage becomes. Descriptive analysis revealed that the highest-scoring indicators of market orientation were commitment to consumer satisfaction and responsiveness to competitor actions. This was reflected in adjustments to taste, product variety, and

service tailored to consumer needs, as well as tracking competitor product trends to generate relevant differentiation. These results corroborate previous studies showing that market orientation significantly influences MSME competitive advantage because market-oriented firms tend to produce products that meet consumer expectations with added value that is difficult for competitors to imitate (Bamfo & Kraa, 2019; Putra & Nuvriasari, 2024; Sinaga, 2025).

In addition, digital marketing was found to have a positive and significant influence on competitive advantage among cake and bakery MSMEs in the Special Region of Yogyakarta. When digital marketing strategies are implemented effectively, they can enhance competitiveness through expanded market reach, promotional efficiency, and strengthened customer relationships. Descriptive analysis identified key indicators driving competitive advantage, including the attractiveness of digital content, consumer interaction, and ease of access to information. MSMEs leveraged social media platforms such as Instagram and e-commerce channels to showcase appealing product visuals, engage directly with customers, and facilitate convenient ordering. These findings support previous research asserting that digital marketing significantly impacts competitive advantage by increasing brand awareness, reducing promotional costs, enabling product differentiation, and accelerating achievement of a competitive position through rapid responses to changes in consumer preferences (Asikin et al., 2024; Setiawati & Nuvriasari, 2025).

The results also demonstrate that product innovation exerts a positive and significant effect on competitive advantage among cake and bakery MSMEs in the Special Region of Yogyakarta. This finding underscores that the ability of MSMEs to develop new products, improve quality, and innovate in packaging and services plays a critical role in establishing competitive advantage. Descriptive analysis indicates that the primary drivers of product innovation are the development of new variants, design innovation, and product quality enhancement. Cake and bakery MSMEs actively adjust their products to align with consumer trends, and these innovative efforts provide added value that differentiates their offerings from competitors. This outcome aligns with prior studies showing that product innovation contributes significantly to competitive advantage by creating unique differentiation, enhancing customer loyalty, and strengthening market position. Product and service innovation therefore emerges as a key factor in boosting the competitiveness of MSMEs amid increasingly intense competition (Rosli & Sidek, 2013; Purba & Nuvriasari, 2024; Tsakalerou et al., 2025).

The findings of this study carry significant theoretical and practical implications for cake and bakery SMEs in Yogyakarta. Theoretically, the results reinforce the Resource-Based View by confirming that market orientation, digital marketing, and product innovation serve as valuable, rare, and difficult-to-imitate strategic resources that drive sustainable competitive advantage in a highly competitive sector. Practically, SME owners and managers are encouraged to integrate these elements into their daily operations: deepen customer and competitor understanding, actively utilize digital platforms such as Instagram and e-commerce marketplaces for cost-effective promotion and engagement, and continuously innovate in product variants, packaging, quality, and service delivery. Local governments and supporting institutions can leverage these insights to design targeted training programs, digital literacy workshops, and affordable innovation support schemes, ultimately enabling micro and small enterprises to not only survive but thrive amid intensifying market rivalry.

6. Conclusion

This study investigated the factors influencing competitive advantage among cake and bakery MSMEs in Yogyakarta, revealing several key findings and practical

implications. First, market orientation was found to have a positive and significant effect on competitive advantage, indicating that a strong focus on understanding customer needs, monitoring competitors, and fostering internal coordination is critical for enhancing competitiveness. Second, digital marketing showed a positive and significant influence, suggesting that effective use of digital platforms can expand market reach, strengthen customer engagement, and support promotional efficiency. Third, product innovation was also positively and significantly related to competitive advantage, highlighting the importance of developing new variants, improving product quality, and innovating service elements to differentiate offerings in a competitive market. These results imply that MSMEs seeking to strengthen their competitive position should prioritize customer centric strategies, embrace digital marketing practices, and continuously innovate their products.

Despite these contributions, this research has limitations. The sample was restricted to 100 cake and bakery MSMEs in the Special Region of Yogyakarta, with uneven geographic representation, which may limit the generalizability of the findings across all subs regions. Additionally, the sample was dominated by micro scale enterprises, which may not fully capture competitive dynamics in small and medium scale MSMEs. Therefore, future research is recommended to expand the sample size and ensure proportional representation across regions and business scales. Such improvements will enhance the external validity of the results and provide a more comprehensive understanding of competitive advantage determinants in the MSME sector.

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